MARKET POWER AND INTELLECTUAL PROPERTY LITIGATION

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

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MARKET POWER AND INTELLECTUAL PROPERTY LITIGATION

THURSDAY, NOVEMBER 8, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to call, at 2 p.m., in Room 2141, Rayburn House Office Building, Hon. Howard Coble [Chairman of the Subcommittee] presiding.

Mr. COBLE. Good afternoon, ladies and gentlemen. The Subcommittee will come to order.

This is the first hearing that our Subcommittee has convened in some time, for obvious reasons known to all of you. Good to see you all. I am pleased to be with you all and welcome you here.

It is appropriate for the Subcommittee to examine the subject we visit today. It is alleged or has been alleged that the Federal Court litigation has resulted in a series of cases and judge-made law on the subject of market power that prejudices copyright, patent and trade secret holders. I repeat, it has been alleged. I am not necessarily alleging that, nor am I refuting it.

Market power is defined as the power to control prices or to exclude competition. The issue is whether the courts have promulgated an overly-harsh standard regarding the presumption of market power. Some legal observers argue that the situation in courts has worsened since Congress first examined this area more than a decade ago and a legislative remedy is needed. Other scholars conversely counterargue that the frustration over the handful of cases on this subject is exaggerated.

My colleagues and I are interested in examining the current state of the law on this subject and its consequences for intellectual property holders. In the view of many, the policies embodied by the judge-made law undermine the incentives for innovation in many areas. As we all know, there is an interest in keeping our economy strong at this point in time, yet the cases that we will discuss appear to cast a cloud of uncertainty over the ability to license, sell and distribute innovative products to the public and result in wasteful litigation.

In the Supreme Court's *Jefferson Parrish* case, it was noted: A common misconception has been that a patent or copyright suffices to demonstrate market power. While a patent or copyright holder might help to give market power to a seller, it is also possible that a seller in that situation will have no market power. For example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product. The question before us, what is the appropriate standard in this area.

Today, we are interested in our goal of examining to what degree the current legal landscape poses a hardship for intellectual property owners, investors and the public. Many assert that a legislative remedy is needed. As you all know, several distinguished Members of this Committee, including the late Hamilton Fish, the distinguished gentleman from New York, as well as Chairman Henry Hyde and I believe Senator Leahy as well, have pursued bills to address the issue we explore today. Ultimately, we will be required to work with our colleagues on the full Committee to advance any necessary legislation to fully address these problems.

I am now pleased to recognize the distinguished gentleman from California, Mr. Howard Berman, who is the Ranking Member.

Mr. BERMAN. Thank you very much, Mr. Chairman. Thank you for rescheduling the hearing today.

I look forward to hearing from the witnesses, who as I understand it will discuss the judicially created presumption that patented or copyrighted products convey market power in the context of tying arrangements. I can see reasonable policy arguments both for and against the continued existence of this presumption. Thus, I remain open to being convinced by our witnesses that legislation is necessary to overturn the presumption.

The debate over this judicial presumption is part of a larger issue concerning the interplay between antitrust and intellectual property law. Some describe this interplay as containing an inherent tension between the goals of antitrust law and the exercise of intellectual property rights. I disagree. Rather, I align myself with those commentators who have written that antitrust and intellectual property laws serve the same goals, namely, promoting competition and benefiting consumers.

That is not to say that IP owners may not commit antitrust violations in the course of exploiting their intellectual property rights. An ample body of case law indicates that such violations do occur. However, I know of no reason to believe that antitrust violations by IP owners occur with any greater frequency than similar violations in other industries.

In fact, IP owners may just as often may be the victims of antitrust violations. Creators of copyrighted works like films, software, music and books must often rely on third parties to distribute, perform and otherwise find a market for their works. Those distribution channels have a history of consolidation and vertical integration and may even be owned by competitors. Thus, owners of distribution channels can potentially commit antitrust violations against copyright owners.

Similarly, copyright owners may often find themselves reliant on third parties, such as device manufacturers, for protection of their copyrighted works. To the extent that antitrust law is interpreted to prevent such third parties from cooperating to protect copyrighted works, it may be straying from the pro-consumer and procompetitive goals of both antitrust and intellectual property law.

I understand the Subcommittee and the full Committee may be considering further hearings on other antitrust intellectual property issues, and I look forward to exploring these and related issues at those hearings.

Mr. Chairman, I am once again in the predicament that I have been in several times and that being both on the International Relations Committee and this Subcommittee present a conflict. So I am going to stay as long as I can, but I do have—there is a closed briefing on an important subject in the IR Committee that I have to go to at some point. I hope you will forgive me for leaving early.

To the witnesses, I am going to read and try to absorb all your testimony, even that part that I am not able to hear.

Mr. COBLE. You will not be punished for early departure.

We have been joined by our distinguished gentleman from Utah, Mr. Cannon. Do you have a statement to make?

Mr. CANNON. No.

Mr. COBLE. The Subcommittee is pleased to have two distinguished members of the bar with us this afternoon. In point of fact, these gentlemen share similar views on the subject we intend to explore. We contacted several other parties in hopes of rounding out the panel, but our invitation was declined. However, it is well known that we have an open process, and the record will remain open for those who wish to send or to submit written testimony.

Today we are indeed fortunate to have as our first witness, Mr. Ronald E. Myrick, who is the President of the Intellectual Property Owners Association, properly known as IPO, and serves as Chief Intellectual Property Counsel for the General Electric Company. I think I am correct, Mr. Myrick, when I say that GE is one of the largest companies in America and can trace its origins to Thomas Edison and his many patents, such as the light bulb.

Mr. Myrick holds a JD degree cum laude from Loyola University School of Law in Chicago. Prior to assuming his present position he was an attorney in private practice. He has been nominated by the United States to the World Trade Organization dispute settlement roster and has served as a delegate for IPO at meetings on the Committees of Experts for the Berne Protocol and the Patent Harmonization Treaty. He is a member of USPTO's Patent Public Advisory Committee.

Mr. Myrick has also published a multi-volume treatise and several papers relating to the subject of international litigation. He has lectured at meetings and seminars organized by such organizations as the World Intellectual Property Organization, WIPO, the ABA and the State Bar of Texas.

Our second witness is equally qualified and well known, Mr. Charles P. Baker, a partner in the law firm of Fitzpatrick, Cella, Harper & Scinto. In addition, he currently serves as Chair of the American Bar Association Intellectual Property Law Section.

Mr. Baker earned his BS in engineering physics from Cornell University and his JD from the University of Virginia. In his law practice he has served as lead trial counsel in all aspects of patent litigation, across a variety of fields ranging from computers to pharmaceuticals to textural fibers. He also has substantial experience advising clients in anticipation of litigation. Mr. Baker is a member of the New York and the D.C. Bar and is active in a variety of professional and civic associations.

Gentlemen, we are pleased to have each of you with us.

If you all will—as you know is our custom, we ask the witnesses to confine their oral testimony to about 5 minutes. When you see the red light illuminate in your eye, that is the signal that 5 minutes is approaching.

Mr. COBLE. Mr. Myrick, if you will start us off.

STATEMENT OF RONALD E. MYRICK, CHIEF INTELLECTUAL PROPERTY COUNSEL, G.E., GENERAL ELECTRIC ON BEHALF OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION

Mr. MYRICK. Thank you, Mr. Chairman, Mr. Berman and all the other Members of the Subcommittee. I find myself in the delightful position of having to agree with both the Chairman and Mr. Berman in much of what they had to say already today.

I appreciate the opportunity to testify on behalf of Intellectual Property Owners Association. I am its current President, as you heard, so the views that I express today are those of IPO and not necessarily those of any other organization, certainly including the P-PAC as well. That is the Patent Public Advisory Committee.

In recent years, IPO has observed that we believe there is a first stage of a dilution of intellectual property rights occurring. We are not going to overblow this. It is just the first stage. It is an incipient dilution. The Supreme Court long ago recognized that the right to exclude is the very essence of the property right that a patent confers. Unfortunately, several courts recently have begun to cast some doubt on the continued vitality of the right to exclude.

In 1997, for example, the Ninth Circuit Court of Appeals in the *Eastman Kodak* case broke away from the rule that there is no antitrust liability for a unilateral refusal to license a patent or copyright. Also, courts in this country and abroad have begun to extend the essential facility doctrine to some degree to intellectual property. In the latest development on this issue in the IMS Health case, a court in the European Union decided in favor of intellectual property on October 26, but the European Commission is expected to appeal the case to the EU's highest court.

The incipient erosion of intellectual property's exclusionary rights is occurring notwithstanding congressional efforts to protect and strengthen the right to exclude over the past 2 decades. Despite new legislation, some courts have continued to misunderstand the nature of intellectual property rights. In the recent Microsoft case, for example, the United States Court of Appeals for the District of Columbia compared an intellectual property owner's exercise of the right to exclude to a tortious misuse of a baseball bat.

The judicial presumption that intellectual property establishes market power is a manifestation of this erosion of intellectual property exclusionary rights. For example, presuming market power based on the mere possession of a patent is irrational and perverse. The inventor has been given a reward by the government which now is used against him by creating an adverse presumption he must overcome.

The Federal patent system recognizes that inventors and investors must be able to recoup their costs in order to earn a profit. Without the reward of a patent and the right of exclusive use that it confers, incentives for innovation will be weakened.

The possibility that a presumption of market power will deter innovation has become more likely in light of the Ninth Circuit decision in the Eastman Kodak case. The Ninth Circuit held that, when a seller has market power, the seller's mere refusal to license a product to a competitor can violate section 2 of the Sherman Act. Under this reasoning, if it were the case that mere possession of a patent confers market power or at least a presumption of such power, the patent owner is precluded from using the very exclusionary right that the patent specifically confers.

The Ninth Circuit based its liability finding on the patent owner's subjective intent. Were courts to presume that all patent owners have market power, then the effect of the Eastman Kodak case would be that all patent owners would have to think twice before refusing to license their patents to competitors.

Legislation is the only way to clarify that courts should not presume market power. The Supreme Court has suggested that the presumption should exist but has repeatedly chosen not to revisit the issue in recent years. The courts of appeals remain divided in their holdings. The Department of Justice and the Federal Trade Commission, to be sure, have published antitrust guidelines for the licensing of intellectual property, stating that the agencies will not presume that a patent, copyright or trade secret confers market power upon its owners. The guidelines, however, are only guidelines. They do not bind any court, nor do they preclude private parties from filing lawsuits for treble damages.

Eliminating the presumption of market power will not create an antitrust exemption of any kind. It will not legalize any conduct that is currently illegal. Eliminating the presumption simply requires a plaintiff suing a patent owner, like plaintiffs suing the owners of other property, to prove that market power does in fact exist. Courts in turn will resolve that issue by implementing the same factual analysis that they use in other antitrust cases.

Intellectual property can pave the way for overwhelming gains in productivity and consumer welfare. It has been demonstrated year after year. The fact that economic prospects may have dimmed in recent months only lends support to the argument for protecting intellectual property and encouraging entrepreneurs to create and develop competitive new products. Because legislation to abolish market power would provide such protection and encouragement, IPO supports it.

Thank you for the opportunity to testify in favor of the right of IP owners to exclude other parties consistent with the right that they have been granted.

Mr. COBLE. Thank you, Mr. Myrick.

[The prepared statement of Mr. Myrick follows:]

PREPARED STATEMENT OF RONALD E. MYRICK

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify on behalf of Intellectual Property Owners Association (IPO). I am the current President of IPO. I am also Chief Intellectual Property Counsel for General Electric Co. in Fairfield, Connecticut, and I have the privilege of serving on the U.S. Patent and Trademark Office's Patent Public Advisory Committee "P-PAC," as First Vice President of the American Intellectual Property Law Association, and on the Council of the IP Law Section of the American Bar Association. The views I am presenting today are those of IPO, and not necessarily those of my company, the P-PAC or any bar association. Speaking for IPO, I am speaking for owners of intellectual property rights.

IPO is an association of U.S.-based owners of patents, trade secrets, trademarks, and copyrights. Our members include about 100 American corporations that are among the largest patent filers in the United States and worldwide from all major industries. Our members file about 30 percent of the patent applications that are filed in the U.S. Patent and Trademark Office (PTO) by U.S. nationals, and pay nearly $200 million a year in fees to support operations of the PTO.

I am testifying here today largely because, in recent years, IPO has observed the incipient stages of a distressing dilution of intellectual property rights. The Supreme Court long ago recognized that the right to exclude is the "very essence" of the property right a patent confers. *Continental Paper Bag Co. v. Eastern Paper Bag Co.,* 210 U.S. 405, 429 (1908). Yet several courts have recently cast doubt on the continued vitality of this right. Although there previously had been "no reported case in which a court . . . imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright," *Image Technical Services, Inc. v. Eastman Kodak Co.,* 125 F.3d 1195, 1217 (9th Cir. 1997), the Court of Appeals for the Ninth Circuit has broken away from this consistent line of precedent. *See id.* And despite the previously limited application of the "essential facilities" doctrine, courts in this country and abroad have begun to extend the doctrine to intellectual property. *See, e.g., Bell South Adver. & Publishing Corp. v. Donnelley Info. Publ'g,* 719 F. Supp. 1551, 1566 (S.D. Fla. 1988) (concluding that there is "no reason" why the doctrine cannot apply when the alleged essential facility is information), *rev'd on other grounds,* 999 F.2d 1436 (CA11 1993); Joined Cases C-241/91 P & C-242/91 P, *Radio Telefis Eireann v. Commission,* 1995 E.C.R. I-743 (holding by European Court of Justice that information protected by a copyright that was essential to the ability to compete had to be licensed on reasonable terms); Case COMP D3/38.044—NDC Health/IMS Health (Commission of the European Communities, July 3, 2001) (compelling IMS Health Inc. to grant a copyright license to its "1860 brick structure," which is a system for organizing pharmaceutical data, on the basis that the structure is an essential facility), *order temporarily suspended, IMS Health Inc. v. Commission of the European Communities,* T-184/01 R (Court of First Instance of the European Communities, Aug 10, 2001).

This erosion of intellectual property rights has occurred notwithstanding Congressional efforts to protect and strengthen the right to exclude over the past two decades. Since 1984, Congress has amended 35 U.S.C. § 271—the statute that provides the basic definition of patent infringement—seven times. Each amendment made the definition of infringement, and thus the patent holder's exclusive rights, broader than before. Without exception, these amendments have demonstrated Congress's commitment to preserving a patentee's right to exclude. The courts, however, have not heeded Congress's message and have continued to misunderstand intellectual property rights. In *United States v. Microsoft,* for example, the Court of Appeals for the District of Columbia compared an intellectual property owner's exercise of the right to exclude with tortious misuse of a baseball bat. *See* 253 F.3d 34 (2001).

In IPO's view, the judicial presumption that intellectual property establishes market power is simply another manifestation of this erosion of intellectual property rights. As such, it should be eliminated. In lieu of the presumption, courts should analyze allegations of market power the same way in all antitrust cases, whether the property is intellectual or traditional: Courts should simply examine the facts of the particular case. Because antitrust law should not treat intellectual property more harshly than other types of property, IPO supports the proposed legislation.

Congress considered and decided not to enact similar legislation several years ago. We believe, however, that the recent court decisions undercutting intellectual property confirm the need for such legislation today. It is our hope that, in addition to eliminating the improper presumption of market power, this legislation will also remind the courts of Congress's consistent and faithful protection of intellectual property rights, and thereby help stem the tide of further erosion.

PRESUMING MARKET POWER IS IRRATIONAL AND COULD DETER INNOVATION, COMPETITION, AND ECONOMIC GROWTH

Commentators have widely agreed that mere possession of a patent or other intellectual property is insufficient to obtain market power. As Professors Areeda and Hovenkamp put it, some intellectual property has no commercial value at all, let alone sufficient value to bestow market power on its owner. *See* Phillip E. Areeda & Herbert Hovenkamp, IIIA Antitrust Law: An Analysis of Antitrust Principles and Their Application 131, ¶523 (1996). A product might possess sufficient inventiveness to be patentable, but there might not be anyone who is willing to pay the cost of production. And even when intellectual property has value, market power is highly unlikely if the relevant market contains numerous competitors or if entry barriers are surmountable. In the markets for toasters, cameras, and home computers, for example, most products contain patented features but still face vigorous competition from viable substitutes. These patented goods are socially useful, and their innovation has augmented consumer welfare, but no producer of the goods can be said to possess market power. To use the blunt words of Professor Hovenkamp, "presum[ing] market power in a product simply because it is protected by intellectual property is nonsense." Herbert Hovenkamp, Federal Antitrust Policy: The Law of Competition and Its Practice 136 (1994).

Moreover, the federal patent system, and the constitutional grant of authority from which it is derived, are based on the recognition that "[i]nvention is an uncertain business," and that, "[t]o spur investment in it, inventors must be reasonably assured that they will be able to recoup their costs and earn a profit." Rochelle C. Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate,* 72 Va. L. Rev. 677, 679 (1986). Without the reward of a patent, and the right of exclusive use that it confers, "firms have weak incentives to absorb the costly expenditures needed to develop intellectual property." Alden F. Abbott, *Developing a Framework for Intellectual Property Protection to Advance Innovation, in Intellectual Property Rights in Science, Technology and Economic Performance* 311, 317 (Francis W. Rushing & Carole G. Brown eds., 1990). They "run the risk that . . . their innovations w[ill] earn insufficient profits to offset the losses stemming from failed research efforts," and that "capital markets w[ill] be far less willing to provide funds for independent research efforts." *Id.* at 321.

The patent system fosters innovation and investments in research and development through what the Supreme Court has described as "a carefully crafted bargain." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,* 489 U.S. 141, 151 (1989). In exchange for "disclosure and the consequent benefit to the community," the law gives inventors exclusive rights to practice their inventions for a limited period of time. *Id.* Thus, to foster innovation, the right to exclusive use must effectively compensate inventors, not only for sharing their inventions with the world, but also for investments they make in both successful and unsuccessful research and development efforts, and for the risk, particularly acute in the high-tech industry, that their patented innovations may rapidly become obsolete.

The benefit of this bargain, and thus the degree to which it fosters innovation, is significantly reduced or undermined if the reward for innovation and disclosure simultaneously saddles the innovator with a presumption of market power. As then-Deputy Assistant Attorney General Joel Klein explained to this Committee in 1995, "[t]ypically, one of the most important factors in determining whether a civil antitrust law violation has occurred is whether the firm engaging in particular conduct has market power." Prepared Statement of Joel I. Klein, Deputy Ass't Attorney General, Antitrust Division, U.S. Department of Justice, in Hearing before the Committee on the Judiciary, House of Representatives, 104th Cong., 2nd Sess., on H.R. 2674 (May 14, 1996). Thus, a presumption that this important predicate to liability exists greatly increases both the threat of litigation and the risk of a finding of liability. In light of the powerful antitrust litigation tools available in American courts—class action procedures, *parens patriae* actions by the States, reliance on circumstantial evidence—and the powerful remedies available for antitrust violations—treble damages, joint and several liability, and injunctions—a presumption that increases the risk of antitrust litigation and liability attaches a significant disability to the statutory right "to exclude others from making, using, offering for sale, or selling the invention." 35 U.S.C. § 154(a)(1). The inevitable result of altering and reducing the benefit of the patent bargain is to reduce the reward for investment in research and development that is so important to consumer welfare and to the nation's economy.

The possibility that a presumption of market power will deter innovation has become even more likely in light of the Ninth Circuit's decision in *Image Technical Services, Inc. v. Eastman Kodak Co.,* 125 F.3d 1195 (1997), which held that, when a seller has market power, his mere refusal to license a patented product to a competitor can violate section 2 of the Sherman Act. The Ninth Circuit based its liability finding on the patent owner's subjective intent—introducing enormous uncertainty into whether an IP owner has the right to refuse to license its intellectual property. Were courts to presume that all patentees have market power, then the effect of *Image Technical Services* would be that all patentees (or at least all patentees in the Ninth Circuit) would have to think twice before refusing to license their patents to competitors, lest the patentees be forced to defend against costly lawsuits under the Sherman Act. The combination of a presumption of market power and the Ninth Circuit's holding limiting the freedom of those who possess market power would open the door to vexatious litigation against those who own intellectual property. This result would obtain, notwithstanding the fact that the very essence of a patent has always been "the right to exclude others from making, using, offering for sale, or selling the invention," 35 U.S.C. § 154(a)(1). Fortunately, the Court of Appeals for the Federal Circuit rejected the Ninth Circuit's analysis and holding. *In re Independent Service Organizations Antitrust Litigation,* 203 F.3d 1322 (Fed. Cir. 2000). But patent holders who may face litigation in the Ninth Circuit will have to be cautious before exercising their fundamental patent rights, especially if courts are permitted to apply the economically baseless presumption that all intellectual property establishes market power.

LEGISLATION IS NECESSARY TO CLARIFY THAT COURTS SHOULD NOT PRESUME MARKET POWER

Legislation would not be needed if federal courts had soundly settled the expectations of intellectual property owners by uniformly rejecting the presumption of market power. Unfortunately, however, in older decisions, the Supreme Court has twice suggested that the presumption should exist, the courts of appeals are divided in their holdings, and the Supreme Court has chosen not to revisit the issue in nearly twenty years. Almost 40 years ago, in an overbroad statement unnecessary to the holding of the case at hand, the Supreme Court stated that the "economic power" required for a tying violation is "presumed when the tying product is patented and copyrighted." *United States v. Loew's, Inc.,* 371 U.S. 38, 44 (1962). Citing to this language, the Supreme Court reiterated its position over two decades later, suggesting in *dictum* in another tying case that, "if the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Jefferson Parish Hosp. Dist. v. Hyde,* 466 U.S. 2, 16. In a well-reasoned concurring opinion, Justice O'Connor flatly rejected this presumption and explained (as IPO has done today) that a patent holder lacks market power when there are close substitutes to the patented products. *Id.,* at 38 n.7 (1984). But her position garnered only four votes, and the lower courts were left to choose between the misguided dictum of the majority and the concurring opinion of Justice O'Connor.

Taking the latter course, most courts of appeals have recognized that a presumption of market power is economically baseless. *See, e.g., A.I. Root Company v. Computer/Dynamics, Inc.,* 806 F.2d 673 (6th Cir. 1986); *Will v. Comprehensive Accounting Corp.,* 776 F.2d 665 (7th Cir. 1985). The Court of Appeals for the Ninth Circuit, however, has maintained that the presumption applies with respect to patents and copyrights in tying cases. *Digidyne v. Data General Corp.,* 734 F.2d 1336 (9th Cir. 1984). Because the decisions of the Ninth Circuit affect the legal rights of over 50 million people living in nine western states—an area that includes much of our nation's high-tech industries—as well as the rights of any national or global company doing business in this large and populous area, that court's presumption of market power has tremendous consequences. Many onlookers have hoped that the Ninth Circuit would overturn its decision or that the Supreme Court would resolve the issue,[1] but neither event has occurred. Indeed, on several occasions in recent years, the Supreme Court has opted not to hear a case that squarely presented the question. *See, e.g., id.,* cert. denied, 473 U.S. 908 (1985); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.,* 725 F.2d 1350 (Fed. Cir.), cert. denied, 469 U.S. 821 (1984); *Will v. Comprehensive Accounting Corp.,* 776 F.2d 665 (7th Cir. 1985), cert. denied, 475 U.S. 1129 (1986). Thus, the federal courts have not settled the issue, and intellectual property owners have been confronted with uncertainty, insecurity and the risk that their actions will result in significant litigation costs and possibly even treble damages.

The Department of Justice and the Federal Trade Commission, to be sure, have published Antitrust Guidelines for the Licensing of Intellectual Property, stating that the agencies "will not presume that a patent, copyright, or trade secret confers market power upon its owners." *Antitrust Guidelines for the Licensing of Intellectual Property* (1995). These guidelines, however, are just that—guidelines. They do not bind any court; nor do they preclude private parties from filings law suits for treble damages. Indeed, the guidelines are not even permanent, as any administration can change them at any time. Consequently, despite the agencies' welcome efforts, the existing confusion among the federal courts may deter parties from entering into beneficial marketing or licensing arrangements. For meaningful security against

[1] *See, e.g.,* Prepared Statement of Joel I. Klein, Deputy Ass't Attorney General, Antirust Division, U.S. Department of Justice, in Hearing before the Committee on the Judiciary, House of Representatives, 104th Cong., 2nd Sess., on H.R. 2674 (May 14, 1996).

vexatious lawsuits and flawed judgments in antitrust cases, intellectual property owners and developers need legislation abolishing the presumption of market power.

WITHOUT THE PRESUMPTION, COURTS CAN SIMPLY APPLY THE FACTUAL ANALYSIS THAT THEY USE IN OTHER ANTITRUST CASES

Eliminating the presumption of market power will not create an antitrust exemption; it will not legalize any conduct that is currently illegal. Eliminating the presumption simply requires a plaintiff suing a patent holder—like plaintiffs suing the owners of other property—to prove that market power does, in fact, exist. Courts, in turn, would resolve that issue employing the same factual analysis that they use in other antirust cases. Courts would examine, among other factors, the availability and closeness of substitutes, the existence of entry barriers, the defendant's market share, and the number and size of other sellers and buyers. Courts have experience applying this fact-based analysis. Not only is it generally used with respect to traditional property, but most courts have employed it in the context of intellectual property. Indeed, the Supreme Court has suggested that a factual analysis of the "relevant market" is required when the antitrust claim is one of monopolization or attempted monopolization under section 2 of the Sherman Act, even if the case involves intellectual property. *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.,* 382 U.S. 172 (1965); *see also Spectrum Sports, Inc. v. McQuillan,* 506 U.S. 447 (1993). Because courts have routinely applied the fact-based analysis of market power, and have done so for several decades without substantial conflict in results, IPO has confidence that courts can faithfully and consistently apply the analysis without any difficulty.

We recognize that the Sherman Act, like the patent statute, plays an important role in fostering innovation and consumer welfare, and that some members of this Committee have in the past expressed concerns about amending in any way a law that has served as the charter of economic liberty. A presumption that a patent confers market power, however, is inconsistent with the common aims of both statutes. Recognizing the import of intellectual property to our nation's vitality, the Framers of our Constitution expressly empowered Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective writings and Discoveries," U.S. Const., Art I, § 8, ¶8. Intellectual property plays no less a role in preserving the general welfare today than it did some 200 years ago. As evidenced by the economic explosion of the 1990s, intellectual property can pave the way for overwhelming gains in productivity and consumer welfare. The fact that economic prospects may have dimmed in recent months only lends support to the argument for protecting intellectual property and encouraging entrepreneurs to create and develop competitive new products. Because the proposed bill provides such protection and encouragement, IPO supports it.

IPO again thanks the Chairman and the Subcommittee for the opportunity to testify in favor of the proposed legislation.

Mr. COBLE. We have been joined by the distinguished gentlemen from Virginia, Mr. Boucher and Mr. Goodlatte. Mr. Goodlatte was here, but I see he has departed.

Mr. Baker.

STATEMENT OF CHARLES P. BAKER, FITZPATRICK, CELLA, HARPER & SCINTO, ON BEHALF OF THE AMERICAN BAR ASSOCIATION

Mr. BAKER. Thank you, Mr. Chairman. Thank you Subcommittee Members.

Good afternoon. I am Charles Baker, here on behalf of the 400,000 lawyers of the American Bar Association. I am Chair of the Intellectual Property Law Section, which has 21,000 members. I bring you in particular the greetings of the Association's' President, Bob Hirshon, and its President-Elect, A.P. Carlton.

It is an honor to be here before Congress and before this Subcommittee and its Chair, which we know firsthand labor hard and long with its staff to keep the American intellectual property system the strong engine of our economy which it has been for over 200 years.

In particular, I would like to congratulate you on the passage by the House on Tuesday of H.R. 2047, the PTO authorization bill, which calls for the PTO to have access to all the fees paid to it by its users and for long-range planning to reduce pendency and improve quality. Without diminishing the importance of what we are doing here today, Mr. Chairman, to me, patent pendency and quality and funding of the patent office are the most important threat to issues facing our intellectual property system today, and I am pleased to see progress is being made.

To turn to the subject at hand, the House of Delegates of the ABA has passed a resolution urging Congress to enact legislation which would eliminate any presumption that patents, copyrights or other intellectual property defines a market or establishes market power in actions under the antitrust laws. Among those experienced in this area there is no dispute about this policy. Not only does the ABA, including both its IP section and antitrust section, agree, but the Department of Justice and FTC in their guidelines for licensing of intellectual property agree that market power should not be presumed from the existence of IP rights. That is referred to on page 9 in my statement.

Why is this policy plain to those experienced in this area? Because we often see examples in our day-to-day work and we see that the presumption makes no sense if considered carefully. For example, let us look at DuPont's super strong fiber Kevlar. It was introduced to the public after years of research and after the expenditure of hundreds of millions of dollars on the plant to manufacture it.

Kevlar has unique properties. One pound of Kevlar is as strong as five pounds of steel, but it is not a perfect fiber. Abrasion can be a problem. Therefore, it is very good for bulletproof vests where strength and light weight are primary, but it is not good for tire cord, for example, where abrasion must be taken into account. Yet patents cover Kevlar in both these uses.

It makes no sense to presume that DuPont has market power in all fiber market or even in any fiber markets just because DuPont has patents on Kevlar. In spite of this agreement in principle among those experienced in the area and in spite of common sense, we still have a conflict on this presumption among the circuit courts of appeal. My paper identifies two decisions from 1999 which rely on the fallacious presumption.

We could wait for the Supreme Court, but we have been waiting for more than 15 years when two justices dissented from the denial of cert in a case that would have clarified the issue. That is the dissent in Digidyne, and it is cited on page 6 of my paper.

The only hesitation about this legislation that I have heard is from those who say that we should not as a matter of principle amend the 100-year-old antitrust laws. That thinking overlooks the fact that, in 1988, Congress amended the patent law to address antitrust market power issues in another context. That is § 271(d) of title 35 U.S. Code, which is referred to on page 10 of my paper.

The importance of this legislation is shown by the names and the cases in my statement where this issue was addressed, companies like Xerox, Kodak, MCA, Chrysler. For businesses like those which contribute greatly to our economy, certainty is priceless; and the greater the uncertainty, the more investment-created jobs are discouraged.

The ABA, therefore, urges legislation like that previously introduced that would preclude the presumption of market power in intellectual property litigation. The past legislation would be improved, however, if its principle is extended to cover expressly licensing and refusal to license intellectual property rights; and I identified some alternative language on page 14.

Thank you for the opportunity to present the views of the ABA and for your attention. If you have any questions, I will do my best to respond.

[The prepared statement of Mr. Baker follows:]

PREPARED STATEMENT OF CHARLES P. BAKER

Mr. Chairman and Members of the Subcommittee:

We thank you for letting us present the views of the American Bar Association on market power presumptions based on intellectual property in antitrust actions.[1]

The ABA is convinced that Congress should enact legislation which would eliminate any presumption that intellectual property defines a market or establishes market power in actions under the antitrust laws.[2] Because such presumptions are arbitrary, ignoring real world facts, they have no proper basis from the point of view of either intellectual property or antitrust law,[3] and they lower incentives created by intellectual property law to invest in new jobs and new industrial facilities based on technical advances.

To illustrate how misguided such presumptions are, let me refer to DuPont's patents on its super-strong fiber known as Kevlar®, about which I have some personal knowledge. DuPont invested for years in extensive research related to the chemistry of the fiber, and in research into methods of extruding the fiber. For example, the strength of the fiber makes extrusion of it very difficult. Eventually DuPont discovered a successful method of extrusion, but it uses hot, concentrated sulfuric acid. Based in part on the patents it had obtained, DuPont then invested hundreds of millions of dollars more in building a completely new plant to make Kevlar®, which was necessary because of the new chemistry and the new extrusion process involved.[4]

While there have been markets in fibers for thousands of years, Kevlar® has unique properties. One pound of Kevlar® is as strong as five pounds of steel.

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[1] In 1990 the House of Delegates of the American Bar Association adopted a policy position, which was reaffirmed in 2000, in support of H.R. 469, 101st Cong., a bill to provide that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws. The ABA testified in support of that bill. See testimony of Norman P. Rosen in "Intellectual Property Antitrust Protection Act of 1989," *Hearing on H.R. 469 Before the Subcommittee on Economic and Commercial Law of the House Judiciary Committee,* 101st Cong., 2nd Sess., 59–70. In 1996 the ABA testified in support of H.R. 2674, which had essentially the same provisions as H.R. 469. See testimony of John R. Kirk, Jr., "Intellectual Property Antitrust Protection Act of 1995," Hearing Before the Committee on the Judiciary, House of Representatives, Serial No. 75, 104th Congress, May 14, 1996.

[2] The 1990 ABA resolution states: "BE IT RESOLVED, That the American Bar Association favors in principal legislation such as H.R. 469, 101st Cong., 1st Sess. (1989) (Fish) and S. 270, 101st Cong., 1st Sess. (1989) (Leahy) which provides that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws;

RESOLVED, That the Association recommends such legislation cover specifically the licensing of or refusal to license such rights."

[3] The antitrust law and the patent law are "complimentary" because they "both are aimed at encouraging innovation, industry and competition." *Atari Games Corp. v. Nintendo of America, Inc.,* 897 F.2d 1572, 1576 (Fed. Cir. 1990).

[4] This example shows an important thing about patents. They are not entirely for the inventors. Patents are also largely for investors—people who might otherwise invest in real estate or other forms of property, but who, having patents to protect their investments from copiers within the United States, and from unfair foreign competition, are encouraged to invest to create new jobs and even new industries based on new technologies.

Kevlar®, however, is not a perfect fiber. For example, it is particularly subject to abrasion. Therefore, for some uses, such as bullet-proof jackets, where strength is paramount and abrasion resistance is a minor factor, Kevlar® is highly preferred, though heavier bullet-proof jackets can be made from other fibers.[5] For other uses, however, where abrasion is a primary factor, as in reinforcing tires or in conventional ropes, Kevlar® is less preferred, or if used, special precautions must be taken to avoid abrasion. Whether considering Kevlar's more preferred uses, such as bullet-proof fabrics, or its other uses, there are possibilities of substitution that must be considered before deciding whether the maker of Kevlar® has "market power."[6]

It is plain that it does not make sense to say, in a knee-jerk way, that solely because there are patents on Kevlar®, the owner of those patents has market power. Rather, a fact-specific inquiry must be made to determine the demand for Kevlar® relative to possible substitutes. For some of its uses Kevlar® may provide market power, but for others it may not, yet patents cover Kevlar® for all uses and markets.

As Congress knows, these three concepts—relevant market, market power, and monopoly power—are important elements in establishing various types of antitrust violations. They are essential to prove monopolization and attempted monopolization in violation of Sherman Act § 2,[7] and an illegal tie-in in violation of Sherman Act § 1.[8] In addition, courts require or allow evidence of market power as an element of proof of an illegal restraint of trade under the rule of reason in violation of Sherman Act § 1.[9]

At least as early as 1965 the Supreme Court in the *Walker Process* case recognized that market power could not be presumed from the existence of a patent.[10] In remanding with respect to Section 2 of the Sherman Act, the Court explained,

> "There may be effective substitutes for the device which do not infringe the patent. This is a matter of proof, . . ." 382 U.S. at 178.

The Supreme Court, however, has not been entirely consistent and clear on this. In 1962, before *Walker Process,* in *United States v. Loew's Inc.,* 371 U.S. 38, 45, the Court expressly endorsed the presumption that an intellectual property right gives rise to market power.[11] In 1984, after *Walker Process, in Jefferson Parish Hospital District No. 2 v. Hyde,* 466 U.S. 2, the Supreme Court in *dict*a split on the issue. The majority in a comment repeated the presumption stated in *Loew's,*[12] while four Justices in a concurring opinion concluded that a patent or copyright alone would not demonstrate market power:

> "A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product."

466 U.S. at 37 n.7 (O'Connor, J., concurring).

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[5] A market is essentially a group of products or services that are reasonably interchangeable with each other. *United States v. E.I. du Pont de Nemours & Co.,* 351 U.S. 377, 394–95 (1956); *Eastman Kodak Co. v. Image Technical Services, Inc.,* 504 U.S. 451, 469 & n.15 (1992).

[6] In a relevant market, market power is essentially the ability to raise prices above or restrict output below the competitive level, and monopoly power is the extreme form of market power. *National Collegiate Athletic Assoc. v. Board of Regents,* 468 U.S. 85, 109 n.38 (1984); *Fortner Enterprises, Inc. v. United States Steel Corp.,* 394 U.S. 495, 503 (1969); *du Pont,* 351 U.S. at 391; see *Kodak,* 504 U.S. at 481 (1992) ("Monopoly power under § 2 requires, of course, something greater than market power under § 1").

[7] *United States v. Grinnell Corp.,* 384 U.S. 563, 570 (1966); *Spectrum Sports, Inc. v. McQuillan* 506 U.S. 447, 455 (1993).

[8] *Kodak, 504 U.S. at 462; Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 13–14 (1984).*

[9] *United States v. Brown Univ.,* 5 F.3d 658, 668 (3d Cir. 1993); *Wilk v. American Medical Ass'n,* 895 F.2d 352, 359 (7th Cir.), cert. denied, 498 U.S. 982 (1990).

[10] *Walker Process Equipment Inc. v. Food Machinery & Chemical Corp.,* 382 U.S. 172 (1965).

[11] Though not discussed in terms of market power, arguably market power was presumed from patents in early tying cases, *IBM v. United States,* 298 U.S. 131 (1936), and *International Salt Co. v. United States,* 332 U.S. 392, 395 (1947).

[12] "[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *United States v. Loew's Inc.,* 371 U.S. 38, 45–47, 83 S.Ct. 97, 102–03, 9 L.Ed.2d 11 (1962). Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer makes all his purchases of a separate tied product from the patentee is unlawful." *Jefferson Parish,* 466 U.S. at 16.

One year later, in 1985, Justices Blackmun and White dissented from the Court's decision to deny a petition for a writ of *certiorari* in *Digidyne Corp. v. Data General Corp.,* 734 F.2d 1336 (9th Cir. 1984), *cert. denied,* 473 U.S. 908 (1985), urging the Court to address the issue of "what effect should be given the existence of a copyright or other legal monopoly in determining market power." 473 U.S. at 909.

In the absence of clear guidance from the Supreme Court, some lower courts have followed *Walker Process* and the concurring opinion in Jefferson Parish,[13] while other courts have applied the presumption.[14] To mention only one recent example, the Eleventh Circuit, using the presumption in *MCA Television Ltd. v. Public Interest Corp.,*[15] reasoned that the "licensor by virtue of its copyright is presumed to have economic leverage sufficient to induce customers to take the tied product along with the typing item." This split among the courts shows the need for clarifying legislation.

The problem of different circuits adopting different approaches to the market power presumption may be a particular problem for the Federal Circuit, which decides appeals in most patent cases. That Court has rejected a market power presumption for patents in the antitrust context.[16] On antitrust issues, where the Federal Circuit perceives a patent policy issue that would benefit from uniformity, it follows its own precedent. Otherwise it will follow precedent of the circuit court of appeals for the region of the trial court in the particular case,[17] even though those courts of appeals may vary in applying the presumption.[18] The Federal Circuit may find itself rejecting the presumption for patent matters, but adopting it for other forms of intellectual property, in the same case.[19]

The two federal antitrust enforcement agencies—the U.S. Department of Justice Antitrust Division and the Federal Trade Commission—have rejected the presumption. Their Guidelines for the Licensing of Intellectual Property provide:

> "The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power."[20]

Congress also has indicated that market power should be proven rather than presumed. Congress clarified the problem of divided circuit law in the closely related

[13] *E.g., C.R. Bard, Inc. v. M3 Sys., Inc.,* 157 F.3d 1340, 1367 & n.7 (Fed. Cir. 1998), *cert. denied,* 526 U.S. 1130 (1999); *Town Sound and Custom Tops, Inc. v. Chrysler Motors Corp.,* 959 F.2d 468, 479–80 (3d Cir. (en banc) (Chrysler trademark does not confer market power), *cert. denied,* 506 U.S. 868 (1992); *Abbott Labs. v. Brennan,* 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("[a] patent does not of itself establish a presumption of market power in the antitrust sense"), cert. denied, 505 U.S. 1205 (1992); *Mozart Co. v. Mercedes-Benz of N. Am., Inc.,* 833 F.2d 1342, 1346 n.4 (9th Cir. 1987) (noting that presumption of market power in copyright cases has been rejected by several courts and commentators), *cert. denied,* 488 U.S. 870 (1988); *A.I. Root Co. v Computer Dynamics, Inc.,* 806 F.2d 673, 676–77 (6th Cir. 1986) (holding that a copyright did not confer a presumption of market power for tying purposes); *American Hoist & Derrick Co. v. Sowa & Sons,* 725 F.2d 1350, 1367 (Fed. Cir.) ("patent rights are not *legal monopolies* in the antitrust sense of that word"), *cert. denied,* 469 U.S. 821 (1984); *Will v. Comprehensive Accounting Corp.,* 776 F.2d 665, 672 (7th Cir. 1985), *cert. denied,* 475 U.S. 1129 (1986); *In re Pabst Licensing,* 2000 U.S. Dist. LEXIS 12076 (E.D. La. 2000).

[14] *E.g., Virtual Maintenance, Inc. v. Prime Computer, Inc.,* 11 F.3d 660, 666 (6th Cir. 1993) (licensee had market power in the derivative aftermarket for software support by virtue of its exclusive software license and a manufacturer's requirement that all suppliers use the licensed software), *cert. dismissed,* 512 U.S. 1216 (1994); *MCA Television Ltd. v. Public Interest Corp.,* 171 F.3d 1265, 1277–79 (11th Cir. 1999); *Digidyne Corp. v. Data General Corp.,* 734 F.2d 1336, 1341–42 (9th Cir. 1984), *cert. denied,* 473 U.S. 908 (1985) (presuming defendant's computer software enjoyed market power because it was copyrighted); *Sea-Land Service, Inc. v. Atlantic Pacific International, Inc.,* 61 F. Supp. 2d 1102 (D. Hawaii 1999).

[15] 171 F.3d 1265, 1277–79 (1999).

[16] *CSU, L.L.C. v. Xerox,* 203 F.3d 1322, 1325 (2000); *Abbott Labs. v. Brennan,* 952 F.2d 1346, 1354 (Fed. Cir. 1991), *cert. denied,* 505 U.S. 1205 (1992).

[17] *See Nobelpharma AB v. Implant Innovations,* 141 F.3d 1059, 1067–68 (Fed. Cir. 1998).

[18] *Compare Abbott Labs.,* 952 F.2d at 1354 (applying law of Sixth Circuit, which rejects presumption), *with Atari Games Corp. v. Nintendo of America, Inc.,* 897 F.2d 1572, 1576 (Fed. Cir. 1990) (applying in another context the law of Ninth Circuit, which endorses presumption).

[19] *Compare* treatment of patent issues and copyright issues in *CSU,* 203 F.3d at 1325.

[20] Antitrust Guidelines for the Licensing of Intellectual Property issued by the U.S. Department of Justice and Federal Trade Commission § 2.2, 1995 WL 229332 (April 6, 1995).

patent misuse context by providing that a patent owner must have market power to establish a tie-in misuse.[21]

In sum, we are no longer in a period, as we were in the middle of the last century, where patents and other forms of intellectual property were automatically considered to be evil monopolies. The public, Congress, the executive branch and most judicial opinions recognize that properly obtained and issued patents promote investment, create new jobs and protect our industries from unfair foreign competition. While the public pays a price for a limited period of time, the rewards to the public justify the price in terms of new jobs and a higher, healthier standard of living. As mentioned above, antitrust law and intellectual property law are complimentary in the common goal of encouraging innovation and competition. Arbitrary presumptions about market power hinder reaching that goal.

The ABA agrees with the antitrust enforcement agencies, the Supreme Court in *Walker Process,* the concurring opinion in Jefferson Parish, and the other courts that have rejected the presumption. As illustrated above, the presumption defies common sense. When reasonable substitutes exist for a product protected by intellectual property—as is often the case in the American marketplace—the intellectual property confers no real ability to raise or control prices. Similarly, where others can readily enter the market if prices rise significantly, the intellectual property confers no real market power. Thus, in many cases, intellectual property does not yield market power, and any presumption of market power is unwarranted.

We understand that some lawyers will argue that in view of recent decisions such as *CSU v. Xerox* and the recent guidance from executive branch, there is no need for legislation. We respectfully disagree. The interface between antitrust and intellectual property law, if not examined carefully, can be misunderstood.

For example, the Federal Circuit stated in *CSU v. Xerox* that a patent holder has the "right" to refuse to sell or license in markets within the scope of the statutory patent grant:

> "Xerox's refusal to sell its patent and parts [does not exceed] the scope of the patent grant. . . . Therefore, our inquiry is at an end. Xerox was under no obligation to sell or license its patent parts and did not violate the antitrust laws by refusing to do so." 203 F.3d at 1328.

Thus, *CSU v. Xerox* stands for the proposition that as long as a patent owner does not exercise power beyond the scope of the patent coverage (for example, by tie-ins, by extensions in time or by price fixing in licenses), the owner may dominate the market covered by the patent, even if that is a relevant product market for antitrust purposes.[22] According to the reasoning of that decision, by the grant of market exclusivity to the patent owner, the public obtains disclosure of the patent owner's improvements and encourages investment in developing that improvement to make it available to the public; only when the patent owner seeks to exercise that power beyond the patent coverage does the owner run afoul of the antitrust laws.

Legislation is needed because a presumption that market power arises from intellectual property can harm competition. With the presumption to assist in proving an antitrust violation where intellectual property is involved, the risk of antitrust treble damage liability for licensing intellectual property increases. Common sense teaches us that as that risk increases, the value of the intellectual property decreases. And decreased value lowers the incentives for American companies to invest in developing new and improved technologies, and to license those improvements to others. Yet these improvements in technology, used in the marketplace to compete with older technologies and with other developments, keep competition vibrant in our economy. As long as the Supreme Court or any courts of appeals employ that presumption, that risk and those disincentives to developing, disseminating, and competing with improved technology will continue.

Though it lessens the incentives for intellectual property owners to develop and disseminate these tools for competition, the presumption does not further the antitrust law's objective to prevent anticompetitive practices. Removing the presumption, on the other hand, will simply require antitrust plaintiffs in intellectual prop-

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[21] "1988 Amendments to 35 U.S.C. "271(d)(5) provide in pertinent part that misuse shall not exist in the case of tying unless "the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." *See also, CSU,* 203 F.3d at 1326 and *In re Recombinant DNA Technology Patent and Contract Litigation,* 850 F. Supp. 769, 775 (S.D. Ind. 1994) (indicating that no presumption of market power would suffice to establish misuse under § 271 (d)(5)).

[22] We recognize that the Ninth Circuit may disagree with this (*see Image Technical Services, Inc. v. Eastman Kodak Co.,* 125 F.3d 1195, *cert. denied,* 523 U.S. 1094 (1998)), but that Court seems to be alone among the Circuits in its view.

erty cases to meet the same requirements as antitrust plaintiffs in other types of cases.

Consequently, the ABA endorses the approach of bills such as H.R. 2674 of the 104th Congress.

The ABA, however, suggests certain changes to language previously considered by Congress. Section 2 of H.R. 2674 would have prohibited the market power presumption in any action involving conduct "in connection with the marketing or distribution of a product or service protected by [an intellectual property] right. . . ." This language appears to leave many situations in which the presumption could still exist. For example, a court might not construe the quoted language to also include provisions in agreements in connection with the licensing of or refusal to license an intellectual property right, or in connection with intellectual property rights that may result from research and development that have not yet resulted in a product or service. No reason exists for the presumption in these circumstances, just as none exists in the circumstances already covered by Section 2 of the bill as introduced. The presumption can nonetheless work its harm in these types of situations as well, especially in the development of technology through research and development and in the dissemination of technology through licensing.

We therefore suggest including in the legislation language such as the following, which would preclude a presumption of market power—including related issues of economic power and product uniqueness or distinctiveness—from being based on arbitrary presumptions in contexts in addition to litigation.

> In any action in which the conduct of an owner, licensor, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws, such right shall not be presumed to define a market, to establish market, or to establish monopoly power.

To summarize, the American Bar Association recommends that Congress eliminate this unwarranted and harmful presumption by enacting a bill such as H.R. 2674 from the 104th Congress, with the suggested modification.

Mr. COBLE. Thank you, gentlemen, for your testimony.

Mr. Cannon, I am told, is on a short leash and about to depart for California, so I will permit him to begin the questioning.

Mr. CANNON. Thank you. I would much prefer to sit here for the rest of this testimony than sit in an airplane for 3, 4 hours. I appreciate your indulgence, Mr. Chairman.

Gentlemen, both your testimonies makes a very persuasive case that owners of intellectual property should have the inherent right to control how that property is used. However, I would like to focus a little bit more on a narrow facet of the issue. Specifically, how does the market deal with circumstances when two or more competitors join forces with their intellectual property?

Professor Herbert Hovenkamp said in his treatise on antitrust law, for instance, courts have suggested that while a single patentee may fix the price with a single licensee, it does not apply to agreements involving multiple patentees. Such an agreement could be an effective collusion facilitator in that it could permit the firms to fix prices while deterring new entry. Do you see a distinction between a single patentee setting the price for his product and a group of patentees joining forces to set market price for a product? And I would like both of your ideas on this.

Let me explain why I am asking the question. While I recognize the purpose of this hearing is to address patent issues, I would like to take a moment to delve into the related topic of copyright in this context.

The music industry is struggling with these issues as we speak. I have heard of the collaboration among the major record labels to create two entities to address on-line music sales and distribution. Known as Press Play and Music Net, these two ventures will control approximately 80 percent of the digital music content available on line by cross-licensing each other's content.

Recently, CEO Edgar Broffman explained how they hoped their candidate, Press Play, will work. He said, Press Play has what we call an affiliate model where we determine the price and we offer a percentage of that price to the retailing partner, either Microsoft or Yahoo or MP3. The reason we have chosen that, frankly, is because we are concerned that the continuing devaluation of music will proceed unabated unless we do something about it. If you allow an AOL or Microsoft or others who have very different business models to use music to promote their own business model and simply pay the artist and the record companies the minimums, they can advantage themselves on the back of the music industry in a way which continues to devalue music. We don't want to see that happen. End of his quote.

Do you see antitrust concerns in such an environment where two collaborative efforts are able to control 80 percent of the market to prevent the so-called price devaluation that Mr. Broffman intends?

Mr. MYRICK. Mr. Cannon, thank you very much. That is a very interesting question; and if the Chairman and you won't object, I think we will probably supplement that with the answer I am about to give you as the record stays open.

Mr. MYRICK. The complex situation you just posited is something that is in the music industry which I am not at all familiar with, so I can't opine on that at all and certainly wouldn't want to opine on something that is ongoing in the music industry or in the industry in that area, which is not at all familiar to me.

I think there is a concern naturally when more than one party gets involved with another party and begins to amass more controlling power. That is relatively black letter law. I don't know that anything having to do with market presumption is an issue there. I think it probably is more analyzable under standard Sherman one type analysis.

So whether or not market power presumption has anything to do with that, I would say I don't think so. At least I don't see that. I think the analysis that would be applied to such a situation is classic Sherman one analysis, and I don't see any particular reason to depart from that.

Mr. BAKER. Let me address that from a different point of view. If you will forgive me, I will go back to Gilbert and Sullivan who wrote Pirates of Penzance in 1886, 6 months from the time Edison invented the phonograph. Mr. Edison has already been referred to. This is a classic example of traditional copyright principles coming face to face with new technology, and it is going to take time to work it out. I think Congress is entirely right to look into this. Just like the problems presented when Edison recorded the Pirates of Penzance, the people knew that the performance involved copyright rights. But does putting it on Mr. Edison's new invention involve a performance when he plays it out? Well, it took Congress until 1909 to sort that out.

Now we have the Digital Millennium Copyright Act. We are trying to sort through the impact of technology on old rights. I think the Congress should study these emerging issues and keep the right balance between the rights of the owner or the creator, the rights of the public and, at the same time, keep in mind the rights—not the rights but the interest of the investor, because investment can't be required. Investment can only be encouraged. So that is a delicate balance.

We are a little conceited if we say that Congress has never faced it before, because they faced it in the 1800's. But it is something that has to be thought through. If the ABA's antitrust or intellectual property law section or the ABA as a whole can help in any way, we will be glad to.

Mr. CANNON. This issue is very much with us, and I appreciate the answers and yield back my time.

Mr. COBLE. The gentleman from Virginia, Mr. Boucher.

Mr. BOUCHER. Thank you, Mr. Chairman.

I want to say a word of welcome to our witnesses today. I am a little bit perplexed about why we need to pass the bill, and I am here mostly today to learn from our witnesses about why they think this is necessary.

Mr. BOUCHER. Let me start by asking just a baseline question. Would you agree that in the seminal Supreme Court treatment of this subject, which is the *Jefferson Parrish* decision of 1984, that the Court basically said that this presumption of market power only arises when there is a showing that there is no alternative source for the product? Is that correct?

Mr. MYRICK. I believe that is perhaps the case. But at the same time—.

Mr. BOUCHER. Well, that is what the court said.

Mr. MYRICK. At the same time, when you look at the perplexity that has been visited upon us by what has followed that case, we even have the Justice Department and the FTC saying that the law is unclear, sufficiently so—.

Mr. BOUCHER. Well, that actually brings me to question number two. I am glad you raised that. The Justice Department was here. In fact, Joel Klein representing the Justice Department was here in 1996 when this same bill had been placed before the Committee and was being considered. At that time, here is what Mr. Klein had to say. He said, in addition to case law, the vast majority of antitrust scholars and commentators have for many years concluded that the mere existence of a patent copyright or trade secret does not necessarily confer market power upon its owner. Then he went onto say and he concluded his testimony by saying, so strong is the consensus on this point that it raises the question as to whether this bill is really necessary.

So the Justice Department basically came here and said, we are not sure that this ought to be passed because this is what the law is already. And it would appear to me that the Supreme Court's decision in 1984 basically said that, unless the plaintiff can demonstrate no alternative source for the product, there is no presumption of market power merely by virtue of the presence of an intellectual property interest. Do you disagree with that?

Mr. BAKER. Mr. Boucher, I wanted to address the earlier point you made first, and that is I don't disagree with the earlier testimony that scholars and others have come to this conclusion.

Mr. BOUCHER. Well, he said the case law, also.

Mr. BAKER. My papers cite some cases from 1999 that disagree with that. And as long as there is are such cases out there, every businessman who is making a decision has got to be concerned about it. So while I don't mean to deprecate any district judge, there are about 1,000 of them out there, and they are not all as educated as these scholars and these other people Mr. Klein is referring to. So I prefer certainty and I would like to see this absolutely certain.

Mr. BOUCHER. Let me ask you this then. Have there been Federal cases that have been decided since this Supreme Court decision in 1984 that have determined that a presumption does exist of market power simply by virtue of the existence of a patent, trademark or copyright in the absence of a showing that there was no substitutable source for the product? Just a yes or no.

Mr. BAKER. I am not able to answer that question.

Mr. BOUCHER. If you can't answer the question, then you haven't persuaded me that anything has happened since the Supreme Court decision to upset the very clear statement that is contained there that there is no presumption in the absence of a showing of no substitute for the product.

Mr. BAKER. Let me—if you will, give me permission to reread the *MCA Television* case which said, a licensor or by virtue of the copyright is presumed to have the economic leverage sufficient to induce customers to take the product and see if the other things you talked about are included in that case; and I would like to supplement the record on that.

[The information referred to follows:]

November 8, 2001 Hearing
Subcommittee on Courts and Intellectual Property
Responses to Subcommittee Requests for Supplement Responses
Testimony of C. P. Baker

Let me first respond to Mr; Boucher's earlier "baseline" question, in which we were asked if it is correct that, in the 1984 Jefferson Parish decision, the Supreme Court said that a presumption of market power only arises when there is showing that there is no alternative source for the product.

It is correct only if one accepts that the gloss put on the decision by the concurring opinion in its comment at footnote No. 7 is in fact part of the majority opinion at pages 16-17. Since the concurring opinion probably would not have bothered to say this, or the majority would have adopted it in their opinion, if there was agreement on the substance of footnote 7, the matter has been left subject to some doubt, and counseling clients is difficult.

To explain in more detail, although intellectual property rights were not involved in *Jefferson Parish*, the majority opinion addressed the question of when a presumption of market power may be drawn from the possession of intellectual property rights. It did so in the course of determining when a per se rule should be applied to condemn a tying arrangement. The Court described the per se rule as "condemnation without inquiry into actual market conditions" – similar to the process and result involved when a presumption of market power is applied.

The Court, however, did not say that no presumption of market power arises without an inquiry into market conditions and a showing that there is no substitute for the tying product (the patented or copyrighted product in the IP context). To the contrary, the *Jefferson Parish* majority pointed to the ownership of a patent by the seller as an example of circumstances in which *per se* condemnation is appropriate, stating that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Walker Process* (372 U.S. at 178) plainly qualifies this language, as set forth by the concurring opinion in its footnote 7, but *Walker Process* was not even cited by the majority. Further, Justice O'Connor's concurrence in footnote 7 calls a presumption of market power based on intellectual property a "common misconception," noting that there is no market power if there are close substitutes.

Further, according to the majority, "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." That implies that additional evidence is unnecessary for antitrust plaintiffs to prove that intellectual property owners possess market power. The opinion is unclear, however, as to what proof, if any, is necessary to trigger the presumption and whether the plaintiff must show no substitutes before the presumption applies. If antitrust plaintiffs are required to offer additional proof that the product at issue faced little or no competition in the relevant product market, and that entry barriers are significant, there would be no need for a presumption because that would be a showing of market power. On the other hand, if the plaintiff need not provide any evidence of nonsubstitutability, the presumption may result in a finding of market power where there is none.

In short, *Jefferson Parish* did not solve the problem, but rather kept it alive with its *dicta* endorsing the continued application of the unjustifiable presumption that ownership of an IP right constitutes market power of the product involved. While most of the federal regional circuits have chosen not to follow this dicta, some have followed it even in the recent past. *E.g.*, *MCA Television v. Public Interest Corp.*, 17 F.3d 1265 (11th Cir. 1999).

My response to the second part of the question regarding whether any courts continue to apply the presumption after Jefferson Parish, is Yes. To cite one recent example, the 1999 decision of the 11th Circuit in *MCA Television v. Public Interest Corp.*, 17 F.3d 1265, cited the Supreme Court's decision in *United States v. Loew's, Inc.*, 371 U.S. 38 -- the same case relied upon in the *Jefferson Parish dicta* in support of the presumption -- and stated that it would continue to apply the rule in *Loew's* until it is explicitly overruled by the Supreme Court. Or, if I might add, until Congress enacts legislation to do so.

In *MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265 (11th Cir. 1999), MCA's principal offense, according to the Court, was in negotiating an agreement that licensed more than one set of programs. In addition to "Magnum P.I.," "List of a Lifetime," and other miscellaneous features, MCA licensed "Harry and the Hendersons." The station -- which had been sued by MCA for breach of contract -- brought an antitrust counterclaim alleging that although it wanted "Magnum" and other MCA shows, it had been reluctantly forced to license "Harry and the Hendersons." The appellate court agreed with the plaintiff that the licensing agreement constituted "block-booking," defined by the Supreme Court over 50 years ago as those agreements in which a copyright holder "licenses, or offers for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors." *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156 (1948). Because MCA's shows were copyrighted, and because it negotiated a licensing agreement covering one group of shows on the condition that the television station would take "Harry and the Hendersons," the court held that MCA violated the antitrust laws without any further inquiry into MCA's market power or the effects of MCA's license in any specific relevant market.

While "Magnum, P.I." is a very popular show, it is only one of hundreds of television shows that numerous producers and content owners offer to television stations across the country who will use the show to compete for viewership. A presumption of market power could have been rebutted in this case, but the court's discussion of block booking as *per se* illegal precluded any rebuttal evidence on this point.

Mr. MYRICK. May I respond?

Mr. BOUCHER. I have one other thing I wanted to say, but go ahead.

Mr. MYRICK. I just wanted to mention that in the 1995 guidelines, which may be a year before Mr. Klein was here, but they still, I believe, are appropriate to this discussion, the 1995 guidelines jointly put out by the Justice Department and the Federal Trade Commission, they made this reference. The footnote is a particularly interesting piece of it.

"The agencies will not presume that a patent, copyright or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process or work in question, there will often be sufficient actual or potential close substitutes for such product, process or work to prevent the exercise of market power."

The footnote is where the interesting piece is. The footnote says, "The Agencies note that the law is unclear on this issue. Compare Jefferson Parrish Hospital District Number 2 . . . (expressing the view in dictum, if a product is protected by a patent, 'it is fair to presume that the inability to buy the product elsewhere gives the seller market power.') . . .

Then it goes on, noting by the way, Justice O'Connor. But it says, compare also *Abbott Laboratories* v. *Brennan*, Federal Circuit, 1991, no presumption of market power from intellectual property right.

Then it goes on to Digidyne and one other case which—there were three cases cited here. It also goes under Digidyne which does find market power presumption.

My point simply is this—.

Mr. BOUCHER. But was that market power presumption found upon a showing that there was no substitutable source for the product?

Mr. MYRICK. I will have to check that.

Mr. BOUCHER. See, that is the key question. These cases really don't mean anything.

Mr. MYRICK. We will certainly make the clarification on the record.

[The information referred to follows:]

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November 30, 2001

The Hon. Howard Coble
Chairman, Subcommittee on Courts,
The Internet, and Intellectual Property
B-351A Rayburn House Office Building
Washington, D.C. 20515-3306

Dear Mr. Chairman:

I am writing on an issue that came up during the November 8, 2001, hearing for which I promised to submit more information. I appreciate having the opportunity to participate in the hearing.

During the hearing, Representative Boucher suggested that, under *Jefferson Parish Hospital District* v. *Hyde*, 466 U.S. 2 (1984), there is "no [market power] presumption in the absence of a showing of no substitute for the product." With respect, we disagree with this interpretation of *Jefferson Parish*. Nothing in that case -- or any other case -- limits the presumption to situations in which the patented product lacks substitutes.

In *Jefferson Parish*, the Supreme Court unambiguously stated that, "if the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." See *id.* at 16 (citing *United States* v. *Loew's Inc.*, 371 U.S. 38, 45-47 (1962)). Nowhere did the Court suggest that the presumption applies only when substitutes to the product are unavailable. Indeed, each of the next two sentences of the opinion belies such an interpretation:

> Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful.

Id. In the first of these sentences, the Court speaks broadly of "the market power [a patent] confers." The Court does not restrict its statement to occasions in which there are no substitutes; rather, the market power is conferred by the patent alone. And in the second sentence, the Court provides – without exception or limitation – that tying a patented product to another product is unlawful. Quite significantly, the Supreme Court eliminates any requirement that the seller have market power, even though market power is generally an element of a tying violation, *see, e.g.*, *id.* at 13-14. Eliminating the requirement of market power is equivalent to presuming market power.

Moreover, even if the Supreme Court's statements in *Jefferson Parish* were ambiguous, the Court's language in *Loew's* could not be more clear. In *Loew's*, the Court determined that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." *United States v. Loew's*, 371 U.S. 38, 45 (1962). The Court then declared:

> [T]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product. *Id.* at 49.

Jefferson Parish did not purport to amend this principle. It is thus no surprise that Justice O'Connor has understood the market power presumption as applying whether or not there are competing substitutes. *See, e.g., Jefferson Parish*, 466 U.S. at 38 n.7 (O'Connor, J., concurring in the judgment). In fact, her criticism of the presumption is that it prevails even when "there are close substitutes for the patented product" and "the patent holder has no market power." *Id.*

Justice O'Connor and the three Justices who joined her opinion are not alone in this interpretation. The Department of Justice and the Federal Trade Commission have leveled a nearly identical attack on the market power presumption. According to these agencies, the presumption is inappropriate because "there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." *See* Antitrust Guidelines for the Licensing of Intellectual Property § 2.2 (1995).

The lower courts that have adopted the presumption have similarly construed its scope. Echoing *Loew's*, the Court of Appeals for the Ninth Circuit has held that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted," and that "the mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product." *Digidyne Corporation* v. *Data General Corporation*, 734 F.2d 1336, 1341, 1345 (1984) (citing *Loew's*, 371 U.S. at 45, 49). In *dictum*, the Court of Appeals for the Eleventh Circuit has cited the *Loew's* rule without making any exception for products that have substitutes. *See MCA v. Public Interest Corporation*, 171 F.3d 1265, 1278 (1999).

This uniform understanding of the presumption makes sense in light of the purpose of the presumption. Without the presumption, an antitrust plaintiff has to prove that the defendant has market power. To do this, the plaintiff must analyze whether there are substitutes for the defendant's product. *See, e.g., United States* v. *Microsoft Corporation*, 253 F.3d 34, 57 (2001) ("Structural market power analyses are meant to determine whether potential substitutes constrain a firm's ability to raise prices above the competitive level . . . ."). If the product has no substitutes, the defendant has market power. What the presumption does is to remove this evidentiary burden from the antitrust plaintiff. Thus, if the presumption were construed as applying only when the plaintiff shows there are no substitutes, there would be no presumption at all. The plaintiff would have the same burden as without the presumption. Presuming market power only when there are no substitutes is tantamount to presuming market power only when there is market power.

Five years ago, then-Deputy Assistant Attorney General Joel Klein opposed similar legislation on the basis that the Sherman Act "should evolve through case law," not Congressional fixes. In the last five years, however, neither the Ninth Circuit nor the Supreme Court has eliminated the market power presumption. Consequently, intellectual property owners have been confronted with uncertainty, insecurity, and the risk that their actions will result in overwhelming litigation costs and possibly treble damages. Making matters worse, the Eleventh Circuit has recognized the presumption in *dictum, see MCA*, 171 F.3d at 1278, and (as discussed in my earlier testimony) other courts have begun to erode intellectual property rights.

During my testimony, I quoted from a footnote in the 1995 Department of Justice-Federal Trade Commission "Antitrust Guidelines for the Licensing of Intellectual Property." In making the point that the law is unclear with respect to the presumption, the footnote cites in the same sentence the *Digidyne* case, which was a Sherman Act Section 1 case, and the *Abbott Laboratories* case, which was a Sherman Act Section 2 case. The footnote illustrates the broad range of cases affected by the lack of clarity in the law.

We suggest that this letter be placed in the hearing record at page 27 of the transcript, following line 597.

Sincerely,

Ronald E. Myrick
President

Mr. BOUCHER. Let me simply conclude my time here by saying something. I really don't perceive a need to adopt this legislation, and let me just put that belief on the record here. I am concerned that if we pass this in the absence of a clear need to do it, it is a change to the Nation's antitrust laws.

We make those changes very sparingly and for good reason. Because, when we make a change, it is going to be interpreted by the courts to mean something. And if the Supreme Court, which already says there is no presumption in the absence of a showing of lack of substitutable product, sees that we have gone ahead and made this change anyway, I am concerned about how our action is going to be interpreted and whether, for example, it is going to make it more difficult to establish market power in appropriate cases where it really does exist; and that will now become a burden on the plaintiff in those instances.

I am concerned about what effect this change might have on collateral well-settled antitrust policies, such as, for example, the abuse of intellectual property concept; and I would just hesitate to see us act in the absence of a clear showing that it is necessary.

Thank you, Mr. Chairman.

Mr. COBLE. The gentleman's time has expired.

The gentleman from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. I would like to ask the gentlemen to comment about the effect that the traditional definition of market power has in the digital environment as well. For example, in a world where communications are in a network, is there a multiplier effect to market power that requires us to look at this? Mr. Baker?

Mr. BAKER. I am not sure. I have to say that I have not thought about that, and I don't think I can say anything useful at this time.

Mr. MYRICK. That is equally a difficult question, but I will attempt to supplement the record with some further comments.

[The information referred to follows:]

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November 30, 2001

The Hon. Howard Coble
Chairman, Subcommittee on Courts,
The Internet, and Intellectual Property
B351-A Rayburn House Office Building
Washington, D.C. 20515-3306

Dear Mr. Chairman:

During the hearing on November 8, 2001, Representative Goodlatte asked a question about a multiplier effect on market power in a digital world. We have determined that the IPO committees and Board of Directors have not looked into this question. Accordingly, we have no response to Mr. Goodlatte's question at this time.

We suggest that this letter be inserted into the hearing record on page 30 of the transcript, after line 642.

Sincerely,

Ronald E. Myrick
President

November 8, 2001 Hearing
Subcommittee on Courts and Intellectual Property
Responses to Subcommittee Requests for Supplement Responses
Testimony of C. P. Baker

Experts disagree on how to define relevant markets for antitrust purposes in digital environments such as those involved in Internet sales. Congress, federal agencies, attorneys and economists continue to confront this incredibly complex issue in a variety of contexts -- telecommunications and intellectual property legislation; rulemakings; determinations of patentability; antitrust law enforcement actions; counseling; and long-running debates in academia.

There is no question but that the growing significance of the high-technology sector has resulted in an increasingly competitive environment in American business, with new firms offering different and often revolutionary technologies. This has always been a characteristic of the United States economy, and reflects in significant part an intellectual property system that gives substantial rewards to inventors and authors who have something new and interesting to offer the public.

I understand that there is broad consensus in the antitrust bar that the definition of market power in high technology industries depends on the markets under examination. Companies that prevail in the early stages of competition could theoretically obtain enduring competitive advantage. These companies, however, often find it necessary to compete against themselves -- to persuade an installed base of users who already own a satisfactory product to purchase the next generation of their product. So even when some firms have temporary market power, they often behave as if they do not. For example, in network industries sometimes, intellectual property can serve as an effective tool for innovative firms to prevent rivals from appropriating their inventions, but in other cases, a thicket of intellectual property rights may increase the necessity and likelihood of cooperation among innovators in a particular industry, leading to broader participation by multiple firms.

However relevant markets are defined in these new contexts, there is no doubt that the Internet and other new technology opens up broader markets for individual products. So far as the subject matter of this hearing is concerned, the availability of broader markets makes presumptions about market power based upon the ownership of domestic IP rights, such as patents, even more inappropriate.

Mr. MYRICK. But asking whether there is a multiplier effect on market power in a digital world, what market power are we talking about? The market power of the copyright owner? I am curious as to how the market power of a patent owner—those are the defining questions we will have to think about before we can answer that.

Mr. GOODLATTE. Mr. Chairman, I would request one point for "stump the panel" on that one.

Mr. COBLE. Duly noted.

Mr. GOODLATTE. Let me try another one.

The testimony cites several cases in the Ninth Circuit and some have argued that we need a national appellate court to review antitrust cases that would guarantee bringing expertise and greater consistency to these matters. What are your thoughts about establishing such a court like the Federal Circuit Court of Appeals?

Mr. MYRICK. The Federal Circuit has been, in many respects, a great success. I think particularly in the first 15 years of its life it served a very, very useful purpose. There are those who wonder today whether the Federal Circuit is as quite as successful as it used to be, and I think that is something that I am not going to opine on, but there is a debate that goes on as to whether specialized courts ultimately can maintain the focus that they have in the early stages when they are populated with specialized judges when ultimately they may not be so populated with specialized judges in later times. So to say that a particular court would be better for antitrust law than the existing courts of appeal I think has to have a subordinate question answered, which is how would the judges for that court be appointed and would they be sought from the bar or other judges who have particular expertise in that area or would they be general judges from all sorts of walks of life?

I don't particularly believe that there is any particular significance to where the court sits. The issue is the judges who sit on the court.

Mr. GOODLATTE. Mr. Baker.

Mr. BAKER. I don't disagree with anything Ron said, but I would supplement it by saying that I do have a personal reaction to specialized courts. I believe that there is a benefit in having judges address different issues and bringing broad concepts to bear on specific issues rather than the other way around. Perhaps selecting them—and there are other ways to deal with it. But I have that reaction—speaking personally.

Mr. GOODLATTE. In that regard in terms of specialized review, how does enforcement of the antitrust laws by the Federal Trade Commission play into this at all? Does market power play a role in merger policy?

Mr. BAKER. I am not—I will supplement the record on that, too, please.

[The information referred to follows:]

November 8, 2001 Hearing
Subcommittee on Courts and Intellectual Property
Responses to Subcommittee Requests for Supplement Responses
Testimony of C. P. Baker

FTC enforcement, pursuant to guidelines identified in my written statement, is supposed to take into account intellectual property rights and actual market conditions, and as many have noted, patents today are rarely so broad that they prevent other firms from participating in markets covered by them.

In my personal view, however, the FTC has been lax in deferring to intellectual property rights. One example is its ANDA enforcement where the FTC has clearly favored so-called "consumer rights" against the owners of intellectual property to such an extent that those consumer rights have even overridden policies in favor of settling litigation.

Mr. GOODLATTE. Yield back. Thank you.

Mr. COBLE. The gentleman from the Roanoke Valley is on a roll.

Mr. Baker, your testimony obviously reflects the position of the section you chair. Does it also reflect the position of the entire ABA or the ABA as a whole?

Mr. BAKER. It does. This is a policy that has been adopted by the ABA as a whole.

Mr. COBLE. Let me put this question to each of you. Is it your belief that the court made presumption is a rebuttable presumption?

Mr. BAKER. If I may go first, since my mike is on, the case law does not discuss that at length. In fact, I don't recall any case law—any court discussing it. But as it is used, it seems to be a pretty heavy presumption.

Mr. MYRICK. The case law that we have researched has not expressly articulated whether the presumption is rebuttable or simply a heavy thumb on the scale. IPO opposes even a rebuttable presumption. The reasons are two-fold.

First, IPO has found no published opinion in which a court has invoked the presumption yet concluded that the patent does not confer market power.

Second, by shifting the burden of proof on market power, one of the most important factors in establishing antitrust liability, a rebuttable presumption makes it far more likely that a meritless antitrust suit will survive a motion to dismiss and motion for summary judgment. Consequently, even a presumption that may be rebutted will lead to added litigation costs and decrease the value of intellectual property.

Mr. COBLE. Thank you, gentlemen.

We are concerned about the economy, obviously, and particularly in view of the September 11 attack. How would the economy or how might the economy benefit from the proposed legislation that you all discussed?

Mr. BAKER. Without having any hard, specific survey information, it seems to me that certainty is pro-investment. So this would lend certainty in this area, and that is good.

Mr. MYRICK. The market power presumption increases the likelihood that intellectual property owners will face vexatious litigation and be saddled with burdensome litigation costs. The presumption thus lowers the value of intellectual property, thereby reducing the incentive that inventors have to develop intellectual property in the first place. Because our country's continued economic expansion depends on, in large part, on technological innovations, market power presumption undermines expansion by adversely affecting the incentive to motivate. The fact remains there is uncertainty in this law.

Mr. COBLE. Some of the cases you all cited in your testimony were known to the Congress in 1996 when the House Judiciary Committee last examined this subject. Let me ask Mr. Baker this, since that time, is it your belief that these cases were mainly, quote, patent cases, unquote, or were other forms of intellectual property implicated?

Mr. BAKER. I am familiar with patents and copyrights. I don't recall any cases involving any other form of intellectual property. But I think the principles are the same.

Mr. COBLE. You concur, Mr. Myrick?

Mr. Myrick, in your testimony you recommended a legislative remedy. You may want to get with us subsequently about this, but in light of the cases you cite, since the previous bills were before the Congress, would you have any specific advice for the Subcommittee in the event that we do draft a bill? And you can submit that in writing.

Mr. MYRICK. I will be happy to do that. But I have looked at the draft proposal that has been submitted by the ABA, and it appears to me to be a step in the right direction as well in terms of an amendment.

[The information referred to follows:]

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November 30, 2001

The Hon. Howard Coble
Chairman, Subcommittee on Courts,
The Internet, and Intellectual Property
B-351A Rayburn House Office Building
Washington, D.C. 20515-3306

Dear Mr. Chairman:

I am writing in response to a question that was directed to me during the hearing on November 8, 2001.

IPO would support a bill identical to H.R.2674, which was the subject of the hearing before the House Judiciary Committee in 1996. However, we would prefer the language recommended at the end of Mr. Baker's prepared statement on behalf of the American Bar Association. That language makes clear that the legislation would cover licensing or refusal to license an intellectual property right, and would cover circumstances in which a product of service has not yet been introduced

We suggest that this letter be inserted in the record at page 35 of the transcript, following line 760.

Sincerely,

Ronald E. Myrick

REPRESENTING PATENT, TRADEMARK, COPYRIGHT, AND TRADE SECRET OWNERS

Mr. COBLE. Thank you both for being here.

I ask my two Virginia friends if they have any questions?

Gentlemen, thank you both for being here; and thank you all in the audience for attending this hearing.

This concludes the oversight hearing on market power and intellectual property litigation. The record will remain open for 1 week. We thank you again.

The Subcommittee stands adjourned.

[Whereupon, at 2:45 p.m., the Subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
2001 JEFFERSON DAVIS HIGHWAY • SUITE 203 • ARLINGTON, Virg

November 28, 2001

The Honorable Howard Coble
Chair, Subcommittee on Courts, the Internet, and Intellectual Property
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman,

The American Intellectual Property Law Association (AIPLA) welcomes the oversight hearing on the relationship between patent litigation and the market power of intellectual property rights which the Subcommittee held on November 8, 2001. The consideration of this relationship is timely and we congratulate you for having the Subcommittee consider this issue.

The AIPLA strongly supports legislation to remove the presumption appearing in some court decisions that an intellectual property right, without more, provides market power that is of a level sufficient to result in liability under the antitrust laws. Such a presumption is unwarranted because an intellectual property right, if subjected to the normal antitrust analysis used in non-intellectual property cases, rarely yields such economic power. Moreover, the presumption diminishes the value of intellectual property by increasing the risk of antitrust liability for intellectual property owners. In order to allow the marketplace to determine the real value of intellectual property, any suggestion of such an unwarranted presumption should be removed, thereby subjecting intellectual property to the same market power tests as are used in other antitrust cases. Allowing the marketplace to determine the value of intellectual property would provide the incentive for the creation and dissemination of new technology intended by our founding fathers in establishing the patent system.

The AIPLA is a national bar association of more than 13,000 members engaged in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. One of the stated purposes for which the AIPLA was formed is to aid in making improvements in the field of intellectual property, including the study of, and comments on, amendments to the relevant laws protecting such property rights. It is in the pursuit of this purpose that the Association expresses its views on this issue.

Market power is the ability of a single seller to raise price above and restrict output below the competitive level. Greater market power is monopoly power, which is the ability to control prices or exclude competition. They are essential elements in proving various types of antitrust violations, such as monopolization and attempted monopolization in violation of Sherman Act § 2, and an illegal tie-in in violation of Sherman Act § 1. In addition, market power also may be used to prove an illegal restraint of trade under the rule of reason in violation of Sherman Act § 1. Market power is determined in relation to a relevant market, i.e., a group of products or services that are reasonably interchangeable in a geographic area.

The issue involved here is whether a presumption should exist that a patent, copyright, or mask work right covering a particular aspect of technology conveys the power to raise or control prices or competition in any relevant market in which the protected technology competes.

The issue arises because some courts, including the Supreme Court, indicated that a patent presumptively confers market power. In Jefferson Parish Hospital District No. 2 v. Hyde, 466 U.S. 2 (1984), the majority opinion stated:

> [I]f the Government has granted the seller a patent or similar monopoly over the product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful.

Id. at 16 (citation omitted). In a concurring opinion, however, four Justices disagreed:

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

Jefferson Parish, 466 U.S. at 37 n.7 (O'Connor, J., concurring).

Appellate court decisions are not uniform as to whether a patent or copyright presumptively confers market power on its owner or licensee. Although some appellate courts have rejected a presumption of market power for patents and copyrights, others have not. The Federal Circuit, which decides most cases involving patents, more specifically those involving infringement claims, looks to the law of the regional circuit court of appeals for precedent on the general elements in antitrust issues arising in patent cases. The Federal Circuit has indicated that it rejects a market power presumption for intellectual property in the antitrust context. But it has done so following the precedent from the relevant regional court of appeals that also rejected such a presumption. Thus, for patent antitrust matters arising from district courts in which the regional circuit court of appeals would apply the presumption, the Federal Circuit may feel constrained to follow that approach.

A blanket presumption of market power for intellectual property bears no actual relationship to the real world. In all but the rarest of cases in our economy, products and methods compete with other products and methods that affect their market price. Thus, even if an intellectual property owner has the sole right to a particular product or method, that says nothing about how much competition that particular product or method faces from other products or methods that may be reasonably interchangeable and frequently are numerous. Consequently, the AIPLA agrees with the concurring opinion of Justice O'Connor in Jefferson Parish, circuit courts of appeals that reject that presumption, and the Justice Department and Federal Trade Commission, that no market power presumption should exist for intellectual property.

Moreover, such a presumption can have negative effects. By skewing the rules to make it easier to prove an antitrust violation where intellectual property rights are involved than where such rights are not involved, such a presumption increases the risk and thereby diminishes the value of the intellectual property right to exclude. In diminishing that value, the presumption, for no justifiable reason, decreases the incentives to develop and disseminate to others (e.g., through licensing) technology worthy of intellectual property protection. The AIPLA strongly believes, however, that the full incentives to develop and disseminate intellectual property should be preserved in order to stimulate and promote the greatest creation and use of technology in our economy to make our economy more competitive.

Although only certain circuit courts of appeals have not rejected the presumption, an intellectual property owner typically will face the risk of being sued in one of those circuits. Consequently, the value of the intellectual property is diminished as long as any court of appeals endorses the presumption.

We are not aware of any judicial or other precedent that the mere ownership of any other type of asset creates a presumption of market power, and believe that Congress should subject intellectual property to the same market power tests applicable to other assets. Accordingly, the AIPLA believes that legislation should uniformly reject the market power presumption for intellectual property.

We stand ready to work with the Subcommittee as it considers the development of legislation to address this important issue and hope that our views will aid the Subcommittee in this task.

Sincerely,

Michael K. Kirk

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November 16, 2001

The Honorable Howard Coble, Chair
Courts, Internet, and Intellectual Property Subcommittee
U.S. House Committee on the Judiciary
B-351-A Rayburn HOB
Washington, DC 20515

The Honorable Howard L. Berman, Ranking Member
Courts, Internet, and Intellectual Property Subcommittee
U.S. House Committee on the Judiciary
B-336 Rayburn HOB
Washington, DC 20515

Dear Congressmen Coble and Berman:

I am writing with respect to a matter discussed at the Subcommittee's November 6, 2001 Hearing on Intellectual Property Litigation. I understand that some members of Congress are contemplating introducing legislation that would overturn the doctrine that the ownership of an intellectual property right can create a rebuttable presumption of market power in an antitrust case. I believe that legislation that would accomplish this goal would be against the public interest. I urge the Subcommittee to reject this legislation.

I am opposed to this bill for more than one reason. First, this is precisely the type of decision that is best made by the courts. The presumption has arisen as a result of numerous decisions by courts who were struggling to find the best way to administer and decide the cases that came before them. Not only are the courts in the best position to weigh the numerous considerations that should enter into the just resolution of this particular issue. If Congress nullifies the courts' decisions, this would send a clear signal to the losing side of every antitrust case that they should go to Congress whenever they are unhappy with a judge's decision. This could significantly undermine the proper role of the judiciary within our nation.

Second, I am unaware of significant or numerous cases of actual harm that have been created by the presumption. As you know, not all courts employ this presumption. For example, the most prominent antitrust case of our generation, the recent Microsoft decision, which recently was issued by the D.C. Circuit, did not employ this presumption. Further, there have been few plaintiff victories in, for example, tying cases, where this presumption has been used successfully and dispositively. This is simply not an area where there have been any significant abuses or problems. In the tying area, for example, there has been an extremely low percentage of plaintiff victories of any type in recent years. As the old saying goes, "If it ain't broke, don't fix it."

I base my opposition to this legislation upon my experience in the antitrust field. This includes my experience working as an antitrust teacher, in private practice, as a consultant, and at the Federal Trade Commission. My opposition to this legislation also is based upon my scholarly research in the field (I have published dozens of articles on a wide variety of antitrust subjects during the last 19 years).

Thank you for considering my views.

Sincerely yours,

Robert H. Lande

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Venable Professor of Law

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